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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 003190

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [ETTC](#) [GG](#) [TU](#) [IZ](#)  
SUBJECT: AMBASSADOR DISCUSSES PIPELINES, BOT PROJECTS WITH  
ENERGY MINISTER

REF: A) ANKARA 2953 B) ANKARA 3036 C) 2997 (BTC)

Classified by Ambassador Robert Pearson, Reason 1.5 (b,d)

11. (C) Summary. Energy Minister Guler reiterated to Ambassador May 13 his personal commitment to completing BTC construction on time in Turkey, and thanked Ambassador for his reassurance that U.S. support for BTC had not decreased with the change in Iraq. Ambassador requested GOT support for the sanctions lift resolution, noting that passage of the resolution would allow the oil from the Kirkuk-Yumurtalik pipeline to be sold again. Ambassador asked for the Minister's help in resolving the dispute with U.S. BOT power plant investors Doga and Trakya, emphasizing the importance of a quick resolution to the U.S., particularly to OPIC and ExIm, which had roughly USD 500 million invested in these projects. End Summary.

#### Baku-Tbilisi-Ceyhan (BTC) Pipeline

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12. (SBU) Ambassador began his May 13 meeting with Energy Minister Guler by congratulating him on resolving the outstanding management issues relating to construction of the BTC pipeline in Turkey (ref C). Guler emphasized that he was personally following the project, and would ensure that the pipeline was completed on time. Ambassador also reiterated continued U.S. support for BTC, noting that rumors that our support had decreased with recent changes in Iraq and that the U.S. was promoting a Kirkuk-Haifa pipeline were unfounded. Guler said he was happy to hear this directly from the Ambassador; he did not believe U.S. support had changed, but now he could more authoritatively answer reporters, questions on this issue.

#### Kirkuk-Yumurtalik and Sanctions

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13. (C) Turning to the status on the Kirkuk-Yumurtalik pipeline, which the GOT has raised with us previously (ref B), Ambassador noted that the northern oil fields and the pipeline were in good shape. He said, the U.S. -- like Turkey -- wanted to get the oil flowing again, but first U.N. sanctions must be lifted. Ambassador requested GOT support for the sanctions lift resolution, the passage of which would allow oil from the Kirkuk-Yumurtalik pipeline to be sold again. Guler said he would pass the request to the GOT leadership, adding that quick resumption of the oil flow from Iraq would be a "nice gesture" by the U.S. after our recent bilateral problems.

#### BOT Projects

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14. (C) Ambassador raised the current dispute involving the U.S. build-operate-transfer (BOT) power plant investors Doga Enerji (Edison Mission) and Trakya Elektrik (Enron) (ref A). He stated that the U.S. companies felt they were being forced to make unilateral changes to their contracts, adding that this atmosphere was not conducive to successful negotiations. Ambassador noted that the U.S. government agencies OPIC and ExIm Bank had invested roughly USD 500 million in these two projects, and thus the U.S. had a strong interest in seeing the current dispute resolved as soon as possible. He pointed out that the GOT knew from the earlier arrearages dispute involving these same companies that OPIC would aggressively defend its investment. The U.S. also had an interest in the continued, long-term participation of U.S. companies in Turkey's energy sector. Ambassador asked for the Minister's help in resolving this issue during the May 14-16 visit of

OPIC, ExIm and the other export credit agencies.

15. (C) Minister Guler responded that, although he believed there were "irregularities" in these BOT contracts, he was not pursuing a prejudiced approach toward the companies and he was surprised they felt this way. He said he believed the irregularities were likely the fault of the Turkish partners, not the foreign investors. Guler pointed out that Turkey simply could not afford to purchase electricity at 11-12 cents per kilowatt hour from the BOTs when the world average was closer to 4-5 cents per kilowatt hour. With electricity prices 3 times the world average, there was no way Turkey could attract foreign investment, nor could its firms' products compete internationally.

16. (C) Guler said he believed that a contract was a contract, which was why he had approached the companies to ask for a "gesture" on their part, but the companies had refused. He said he had not gone to the press as some politicians might have; rather, he had asked the companies several times in private meetings if they would be open to renegotiating the contracts. Since the companies had refused to renegotiate, he was now looking at the government's rights as a party to the contracts. Guler said he believed there were four possible outcomes: 1) the contracts continue to be implemented as is; 2) the contracts are canceled; 3) the GOT buys out the companies; and 4) the parties enter into international arbitration. He said the Ministry of Energy was reviewing all four options for each of the BOTs; they would not be treated as a group. Guler told the Ambassador he would try to assure the companies that he was pursuing a positive approach, that he was only considering solutions allowed by the contracts, and that he would seek a resolution agreeable to all parties.

#### Electricity Prices and IMF Commitments

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17. (C) Ambassador asked how the Minister planned to reconcile his commitment to cut electricity prices with the GOT's commitment to the IMF in the recent Letter of Intent to increase electricity prices. The Minister responded that the Ministry of Energy had recently implemented several important cost-saving measures, including shutting down the expensive mobile power plants and moving to more hydro power, and stopping the Blue Stream gas flow for six months as allowed for the in the GOT's contract with the Russians. The GOT had also cancelled its contract to import electricity from Bulgaria because the Bulgarians had not held up their end of the bargain by giving priority to Turkish companies for certain projects. These steps had resulted in a USD two million per day savings to Turkey. Guler said the Ministry of Energy (MENR) had argued to Treasury that these savings compensated for not raising electricity prices in 2003. Treasury technicians were now working with MENR technocrats to confirm their calculations.

PEARSON